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WATCHES AND JEWELRY

Luxury watches, jewelry set to slowly rebound: McKinsey

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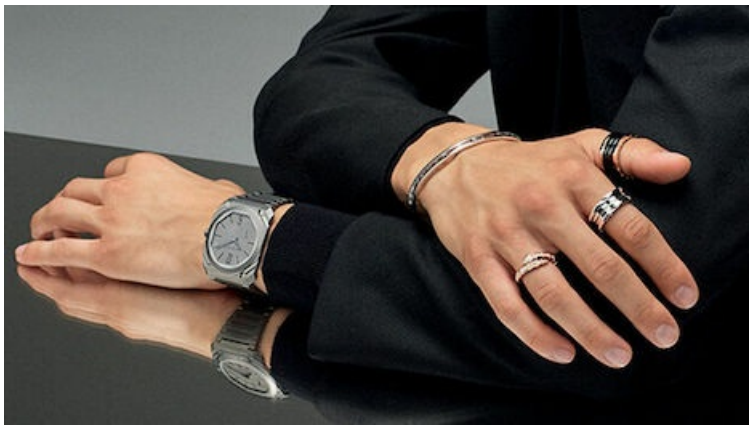


Younger consumers increasingly value sustainability in watch and jewelry purchases. Image credit: Bulgari

By SARAH RAMIREZ

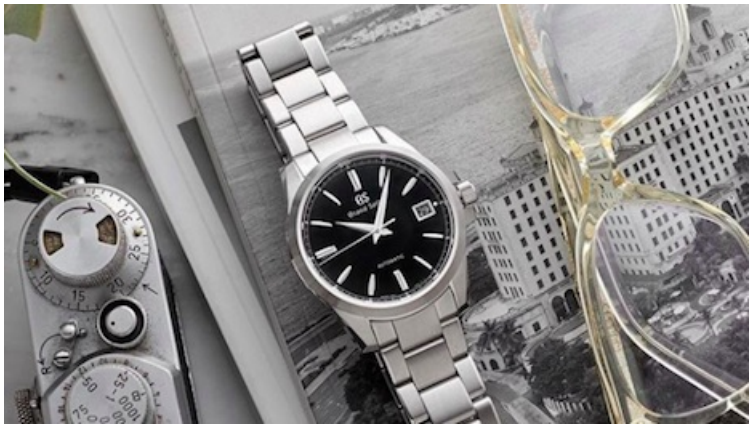
Embracing technology and sustainability will be crucial as the fine jewelry and luxury watch industries look to recover from the COVID-19 pandemic.

According to a new report from McKinsey & Company and *Business of Fashion*, both industries are forecast to return to steady growth through 2025 after being hit with double-digit revenue losses due to the pandemic. Markets in Asia will lead the recovery, as direct-to-consumer and preowned sales accelerate, among other trends.

Sector shifts

McKinsey estimates that in 2019, fine jewelry and watches combined for more than $329 billion in sales. In 2020, however, it is estimated the industries saw revenue declines of 10 to 15 percent and 25 to 30 percent, respectively.

Like other luxury sectors, the categories were hit by the extended closures of physical retail and extremely limited international travel amid the pandemic. Luxury jewelry and watch sales also struggled because the sectors have been slower to transition to online sales.



Hodinkee recently acquired secondhand watch marketplace Crown & Caliber. Image credit: Hodinkee

Brands will have an opportunity to improve in this area as the sectors return to growth. McKinsey predicts fine jewelry will grow at an annual rate of 3 to 4 percent to watches' 1 to 3 percent annual growth through 2025.

Much of this will be fueled by younger consumers and strong domestic markets as international travel remains restricted.

Asia's importance to luxury jewelry and watch brands will continue to grow. The region already accounts 45 percent of global fine jewelry sales and half of global watch sales, and sales are expected to climb between 4 and 14 percent annually.

In the coming years, online sales of global fine jewelry are predicted to increase from 13 percent of the market to 18 to 21 percent. With bricks-and-mortar remaining the dominant channel, brands will have to ensure that digital sales retain high levels of service and experience.

Consumer preferences are also expected to continue shifting towards branded fine jewelry. Although unbranded jewelry will retain the largest market share, this will increase competition among emerging direct-to-consumer brands, established luxury jewelry brands and fashion labels expanding into the space.

Sustainability-influenced fine jewelry purchases are forecast to increase as well, as will expectations about transparency and traceability.

Similar themes will shape the luxury watch industry, even as it grows at a slower rate than fine jewelry.

Louis Vuitton is among the fashion brands that see jewelry and watchmaking as growth opportunities. Image credit: Louis Vuitton

Within the luxury watch sector, consumer interest in sustainability has manifested in strong sales in preowned market. Currently dominated by digitally-native marketplaces, the preowned watch segment is forecast to reach between $29 and $32 billon in global sales by 2025.

Likewise, DTC sales and online sales are expected to grow their market share in the watch industry. Luxury brands are poised to benefit as the mid-market segment, particularly Swiss watchmakers, face increased competition from smartwatches and fashion brands.

Fashion labels Gucci and Louis Vuitton are among those looking to strengthen their reputations in hard luxury, introducing new high watchmaking and fine jewelry collections in recent months (see story).

Reaching consumers

As spending on jewelry and watches recovers, luxury brands have an opportunity to reevaluate their marketing strategies and introduce new ways to engage consumers.

Already, luxury watchmakers have embraced social media, customer relationship management platforms and other digital tools after temporarily closing their doors due to the pandemic.

Earlier this year, Swiss watchmaker IWC Schaffhausen unveiled a new smartphone app that allows customers to try on its timepieces virtually. Users can point the camera of their smartphone at their wrist where augmented reality allows them to view a watch true to its actual size (see story).

Last year, the brand also turned to Facebook to introduce a chatbot for the launch of the latest Portugieser timepieces. The collaboration between the watchmaker, Facebook's Messenger team and Creative Shop was meant to copy the personal experience delivered in an IWC boutique (see story).

To capture the attention of conscious consumers, luxury jewelers and watchmakers are also sharing more in-depth looks at their transparency and sustainability efforts going beyond simplistic or performative marketing.

U.S. jeweler Tiffany & Co. has touted the importance of sustainability and traceability in several efforts that aim to inspire and educate consumers.

In "The Journey of a Tiffany Diamond," the jeweler shares details of its diamond source initiative in an animated film (see story). In a followup series, Tiffany & Co. spotlighted individual employees and consumers as it followed a diamond from Cambodia to Belgium and finally New York (see story).

As of last year, Tiffany shares the full craftsmanship journey of its newly sourced, individually registered diamonds that are 0.18 carats or larger. Customers who buy Tiffany jewelry with diamonds also receive documentation of the gem's region or country of origin, where it was cut, polished, graded and quality-assured, printed on the Tiffany Diamond Certificate (see story).